

Message Text

LIMITED OFFICIAL USE

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 ICA-11 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 PA-01 /102 W
-----038493 012055Z /66

R 011410Z JUN 78
FM AMEMBASSY ROME
TO SECSTATE WASHDC 3190
TREASURY DEPT WASHDC
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMCONSUL MILAN
AMCONSUL NAPLES
AMEMBASSY PARIS
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO

LIMITED OFFICIAL USE SECTION 1 OF 2 ROME 10110

PASS FRB; BRUSSELS FOR USEEC; PARIS FOR USOECD

E.O. 11652: N/A
TAGS: EFIN, IT
SUBJECT: FINANCIAL MARKET DEVELOPMENTS (78-5); MONEY AGGREGATES

1. ITALIAN INTERNATIONAL MONETARY TRANSACTIONS THROUGH
APRIL SHOW AN OVERALL BALANCE OF PAYMENTS SURPLUS FOR
THE FIRST FOUR MONTHS OF 1978 OF ABOUT \$1 BILLION.
UNDERLYING THE CONTINUATION IN 1978 OF ITALIAN BALANCE OF
PAYMENTS SURPLUSES (CONTINUOUS SINCE JUNE 1977) ARE:
(1) THE SURPLUS ON THE TRADE ACCOUNT (ESTIMATED BY THE
BANK OF ITALY TO BE RUNNING AT ABOUT THE SAME SEASONALLY
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ADJUSTED RATE AS IN THE FOURTH QUARTER OF LAST YEAR (OR
ABOUT \$300 MILLION, F.O.B./F.O.B); (2) THE RESUMPTION OF
NET FOREIGN BORROWING BY THE COMMERCIAL BANKS IN MARCH
AND APRIL, AFTER HAVING SUBSTANTIALLY REDUCED THEIR NET
DEBTOR POSITION IN JANUARY AND FEBRUARY, AND (3) BORROWING
BY BOTH PRIVATE AND PUBLIC ITALIAN ENTITIES ON THE EURO-
DOLLAR MARKET IN THE AMOUNT OF ABOUT \$250 MILLION. IT

SEEMS THAT THE UPTURN IN ECONOMIC ACTIVITY, EVIDENT MAINLY FROM TRENDS IN INDUSTRIAL PRODUCTION SINCE JANUARY, HAS NOT YET CAUSED A DETERIORATION IN THE SURPLUS IN THE TRADE ACCOUNT; ACCORDING TO THE LATEST AVAILABLE DATA ON TRADE VOLUMES, THROUGH FEBRUARY, BOTH EXPORTS AND IMPORTS HAVE BEEN RUNNING AT DEPRESSED LEVELS IN 1978. (TABLES 1, 2, 3.)

2. IN ADDITION TO THE REAL SECTOR'S RECOVERY, RISING LIQUIDITY AND ACCELERATING RATES OF INCREASE OF TOTAL DOMESTIC CREDIT ARE EXPECTED TO PROMPT A RISE IN PRIVATE CONSUMPTION, A REDUCTION IN THE ESTIMATED RELATIVELY HIGH LEVEL OF STOCKS OF FINISHED GOODS AND MANUFACTURES, AND AN INCREASE IN IMPORTS OF BOTH CONSUMPTION GOODS AND RAW MATERIALS DURING THE SECOND HALF OF 1978 AND IN 1979. ALTHOUGH THE AUTHORITIES HAVE SUCCEEDED IN STABILIZING THE RATE OF INCREASE IN THE MONEY SUPPLY, IT IS STILL GROWING AT 20 TO 22 PERCENT A YEAR, AND AS A SHARE OF NOMINAL GDP IT IS RISING. THE RATE OF INCREASE OF TOTAL DOMESTIC CREDIT TURNED UP AGAIN IN THE FOURTH QUARTER 1977 AND SHOWS NO SIGNS OF SLACKENING. COMPARED TO THE 30,000 BILLION TOTAL CREDIT EXPANSION AGREED TO IN THE IMF LETTER OF INTENT FOR THE 12 MONTHS END-MARCH 1977 TO END-MARCH 1978, THE ACTUAL INCREASE WAS 39,000 FOR THE PERIOD. (TABLES 4 AND 5).

3. TABLE I - MONETARY MOVEMENTS # (MILLIONS OF DOLLARS)
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	MARCH 1-31	APR. 1-30	JAN. 1-APR. 30
(1) BOI/UIC	1,607.9	-	1,607.9
GOLD			
CONV. FOR. EX.	-871.0	609.3	-586.0
OTHER	-362.5	-27.2	-136.1
TOTAL BOI/UIC	374.4	582.1	885.8
(2) COM. BANKS' NET	-204.0	-320.1	181.3
FOREIGN POSITION			
(3) SURPLUS/DEFICIT	170.4	262.0	1,067.1

INCLUDES GOLD STOCK REVALUATION OF \$1,607.9 MILLION IN THE PERIOD JANUARY-APRIL AND OF \$1,607.9 MILLION IN MARCH. EQUAL CONTINGENT LIABILITY INCLUDED IN "OTHER."

4. TABLE 2 - FOREIGN RESERVE POSITION (MILLIONS OF DOLLARS)

	1977	1978	1978
	DEC. 31	MAR. 31	APR. 30

(1) BOI/UIC

GOLD	11,260.0	12,867.9	12,867.9
CONV. FOR. EX.	7,960.0	6,764.7	7,374.0
OTHER#	-5,585.6	-4,086.6	-4,113.8
TOTAL BOI/UIC	13,634.4	15,546.0	16,128.1

(2) COMMERCIAL BANKS'

NET FOR. POSITION	-6,573.3	-6,071.9	-6,392.0
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TOTAL	7,061.1	9,474.1	9,736.1
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INCLUDES LIABILITIES TO EC, BUNDESBANK AND IMF.

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R 011410Z JUN 78

FM AMEMBASSY ROME

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PASS FRB; BRUSSELS FOR USEEC; PARIS FOR USOECD

5. TABLE 3 - EXTRAORDINARY TRANSACTIONS (MILLIONS OF DOLLARS)

	MAR. 1-31	APR. 1-30	JAN. 1-APR. 30
IMF POSITION	195.7	-	195.7
IMF (1974) STAND-BY	-371.0	-	-371.0
IMF (1977) STAND-BY	-	-	-
IMF OIL FACILITY	-52.2	-	-52.2

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BUNDESBANK GOLD LOAN	-500.0	-	-500.0
EC LOAN	-349.6	-	-349.6
GOLD REVALUATIONS	1,607.9	-	1,607.9
EUROMARKET LOANS	-25.0	-44.4	-73.1

6. TABLE 4 - FOREIGN EXCHANGE AND MONEY MARKET RATES

	JAN 4	APR. 26	MAY 24
LIRA/\$ SPOT	861	869	872
LIRA/\$ 6 MO.	902	895	897
LIRA/\$BLCK MKT.	883	869	875
LIRA DEPRECIATION, IN PERCENT #			
ALL CURRENCIES	40.11	39.70	39.34
DOLLAR	32.53	33.11	33.39
EC CURRENCIES	46.44	46.22	45.48
INTEREST RATES			
INTERBANK 3 MO.	11.375	11.875	11.875

TREASURY BILL, 3 MO.## 11.80 11.60 16.00

PRIME RATE 16.00 16.00 16.00

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LIRA/\$ 3 MO. DIS-

COUNT 10.8 6.2 5.7

AVERAGE BOND 14.149 13.874 13.734

CALCULATED RELATIVE TO QUOTATIONS ON FEB. 9, 1973;
WEIGHTED ACCORDING TO GEOGRAPHIC DISTRIBUTION OF
ITALIAN TRADE.

AT REGULAR END-OF-MONTH AUCTION

7. TABLE - 5 MONEY AND CREDIT AGGREGATES# (12 MONTH RATES
OF CHANGE IN PERCENT)

	1977	1978			
	DEC.	JAN.	FEB.	MAR.	APRIL

MONETARY BASE 1)

RAW	18.9	-	19.6	23.4	17.4
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M1, 2)	21.9	20.9	21.9	-	-
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M E, 3)	23.7	22.0	-	-	-
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TOTAL DOMESTIC

CREDIT	17.8	18.2	18.6	-	-
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1) EXCLUDING POSTAL DEPOSITS

2) CURRENCY IN CIRCULATION PLUS DEMAND DEPOSITS

3) M1 PLUS SAVINGS DEPOSITS AND TREASURY BILL HOLDINGS
OF NON-BANK PUBLIC

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DATA FOR 1978 IS STILL PRELIMINARY.GARDNER

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